DEVELOPMENT FINANCE:

MEASURING SUCCESS IN DEVELOPMENT FINANCE

The Case for a Development Return on Capital

By Patrick Brean, Managing Director, Crystalus

In developing and frontier markets, the lines between aid, trade, and investment are – once again – blurring.

Despite their markedly different DNAs, aid agencies, development finance institutions, export credit agencies, private funds, and commercial banks increasingly find themselves in the same room discussing the same issue: opportunities to promote private development in poor countries.

And despite their divergent agendas, these parties are becoming ever-more harmonious in addressing this matter.

Traditional aid funding in the form of grants, contributions, and concessional loans is finding its way – directly or indirectly – into private sector companies and projects, often in partnership with commercial financial intermediaries. It's a brave new world, and one that is growing quickly.

As public and private funders increasingly join hands to allocate limited resources across myriad private-sector opportunities, one issue is quickly drawing front and center: how best to forecast, measure and report on success?

Risk-adjusted financial rate of return on capital

For private-sector funders, the question and answer is relatively straightforward: the risk-adjusted financial rate of return on capital deployed. Other factors may impact, including adherence to environmental, social, and governance standards; but, in the end it comes down to dollars and cents – if you produce financial returns, you will find success.

For public-sector development funders, especially aid agencies and concessional lenders, the question and answer is more complex.

Clearly, public-sector funders have different drivers and motivations than private-sector funders. Achieving public policy objectives(including but not limited to development outcomes) is the main focus, but this can manifest itself in diverse ways: direct versus indirect recipient funding, lesser or

greater loss tolerance, addressing market gaps versus market failures, as well as leveraging private participation and resources, to name but a few.

This diverse range of outcomes can make it difficult to decide how best to deploy scarce capital at the project level, and how to manage it at the portfolio level. Moreover, policy makers and development practitioners need tangible, objective metrics to gauge results against objectives – metrics similar to, but different than, those employed by purely commercial actors.

Development Return on Capital?

What is needed is a development return on capital model.

Such a model must take into account the numerous and diverse policy outcomes sought, including but not limited to development impacts. It should translate and present these various outcomes in a comprehensive, consistent manner. And the resulting development return quantum should be easily understood, and comparable across projects and activities.

Development agencies and similar market players need new tools to measure, monitor, and manage their rapidly evolving funding activities. Growing fiscal restraints put greater pressure on ensuring scarce capital is deployed for optimal development results. Streamlined decision-making will rely on clear, consistent, and objective data on expected/actual impacts.

A well-constructed development return on capital model is an essential tool in the toolkit.

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